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## UPDATING AN ODA POLICY IN CANADA: THE ROLE OF GLOBAL REMITTANCES IN DEVELOPMENT\*

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### SUMMARY

The federal government has pledged to update Canada's official development assistance (ODA) policy and this paper examines the potential important role of remittances in the development program. Remittances can serve as a significant form of cross-border capital flows and can have sizable effects on both the sending and receiving countries. This policy piece provides an overview of trends in global remittances and gives a context for the policy discussion on the relationship between remittances and ODA. The paper discusses the primary reasons behind global remittances and their impacts on sending and receiving countries, with a particular emphasis on Canada, the United States and Mexico. Past findings provide insight into the reasons and impacts of remittances on both developed and developing countries. Within the context of Canada, the paper also examines how remittances have been able to complement and possibly drive other development reform efforts domestically and abroad. The goal of the analysis is to help inform the policy discussion in Canada and concludes with a set of policy recommendations for the Canadian federal government.

\* This research was financially supported by the Government of Canada via a partnership with Western Economic Diversification.



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## **MISE À JOUR DE LA POLITIQUE D'APD AU CANADA : LE RÔLE DES ENVOIS DE FONDS MONDIAUX DANS LE DÉVELOPPEMENT\***

Cynthia Bansak et Nicole Simpson

### **RÉSUMÉ**

Le gouvernement fédéral s'est engagé à mettre à jour la politique d'aide publique au développement (APD) du Canada. Ce document examine le rôle potentiellement important des envois de fonds dans le programme de développement. Les envois de fonds peuvent constituer une forme importante de flux transfrontalier de capitaux et peuvent avoir des effets considérables sur les pays d'origine ainsi que le pays de destination. Ce document donne un aperçu de la tendance des envois de fonds mondiaux et brosse le contexte pour des discussions d'ordre politique sur la relation entre les envois de fonds et l'APD. Le document se penche sur les principales raisons des envois de fonds mondiaux et leurs impacts sur les pays d'origine et de destination, avec un accent particulier sur le Canada, les États-Unis et le Mexique. Les résultats antérieurs donnent un aperçu des raisons et des impacts des envois de fonds sur les pays développés et en développement. Dans le contexte canadien, le document examine comment les envois de fonds ont permis de compléter et peut-être de stimuler d'autres tentatives de réforme du développement au pays et à l'étranger. Le but de l'analyse est d'aider à éclairer les discussions au Canada. Le document se termine par un ensemble de recommandations d'ordre politique pour le gouvernement fédéral canadien.

\* Cette recherche a été soutenue financièrement en partie par le gouvernement du Canada via Diversification de l'économie de l'Ouest Canada.

## I. INTRODUCTION

In 2016, countries around the world received nearly \$600 billion in funds in the form of remittances. International remittances are financial transfers that households receive from individuals living and working in other countries. They may originate from formal or informal channels, and often come in the form of cash or in-kind transfers. For many countries, the amount of remittances received each year is greater than official development assistance and foreign direct investment and can play a vital role in the recipient country's development. Electronic transfers made through money wiring companies, the banking sector and electronic cash on cellphones or other financial institutions are becoming more prevalent and the cost for these services has come down. However, in some cases, informal mechanisms based on migrant networks are used and individuals are paid fees to carry cash or goods across borders.

The evolution of the transmission method of delivery and the magnitude of the remittances are becoming increasingly relevant around the world – from small island economies to large developed countries. The flow of funds has implications for policy-makers and other non-governmental institutions. Nonetheless, very few countries promote or have directed policies in place to enhance the possible productive uses of remittances. The Canadian government could revise the current ODA policy to include funding as a means to facilitate transfers out of Canada and to boost outcomes in receiving countries. As of 2016-2017, the Canadian government disbursed approximately \$5 billion of ODA in over 100 countries to help the poorest and most vulnerable, and support fragile states; to promote gender equality and the empowerment of women and girls; and to help build a more inclusive, peaceful and prosperous world (Global Affairs Canada, 2017). We believe that additional funding to promote more remittances could help achieve these development goals.

In this paper, we discuss recent trends in worldwide remittance flows with a particular focus on the experiences of Canada, Mexico and the United States, which are interconnected in international trade and labour markets. Recent talks about the future state of NAFTA regarding the flows of labour, capital, and goods and services could impact the flow of funds from labour services if push-and-pull factors for migration are altered. Thus, we feel it is important to talk about Canadian remittances in the context of all three countries (Palmer-Rubin, 2018; Webber, 2018).

As we document below, remittance patterns between these countries are quite different. The U.S. and Canada are large sending countries of annual remittances, while Mexico has a rich and well-documented history of receiving large amounts of remittances each year. Given the importance of remittances in Mexico, there is a sizable academic literature on both the determinants and impacts of remittances at the household and macroeconomic levels in Mexico. Results from those studies have informed economists and policy-makers around the world. More specifically, the experiences of several decades of remittances in Mexico can shed light on the impact of current remittance streams from Canada to China, India and the Philippines. We discuss in detail the various determinants of remittances, analyze their impacts on other recipient and sending countries and connect how those findings may inform the causes and effects of remittances from Canada. We assess the possible micro- and macroeconomic consequences of remittances and shed light on the implications for development reform efforts in Canada. In our concluding section, we delineate a set of policy recommendations for Canada.

Our key questions are: How do remittances impact Canada as a net remittance-sending country and how can policy promote the positive aspects of these largely outbound transfers generated from immigrants residing in the host country of Canada? To date, ODA policy in Canada as it relates to immigration has primarily focused on refugee protection and resettlement; meanwhile, the

more recent ODA policy has focused on international assistance to promote gender equality and help empower all women and girls (Government of Canada, 2018). We believe that governments can facilitate more remittances abroad which can reduce poverty, promote human rights and lend support to “the poorest and most vulnerable, particularly women and girls in all of their diversity.” Marie-Claude Bibeau, Minister of International Development and La Francophonie, emphasized this goal in the 2016-2017 Report to Parliament on the Government of Canada’s Official Development Assistance.

We document that even though remittances may not have large macroeconomic impacts for most receiving countries (with the exception of small recipient countries), the micro-level effects of remittances on households can be positive and significant, leading to increased investment in education, health care and local infrastructure, along with helping impoverished households meet basic needs. In addition, remittances serve as important insurance mechanisms for households worldwide so that the promotion of remittances in Canada can help families around the world protect themselves against economic uncertainty, especially in Asia where the majority of remittances are sent.

## II. TRENDS IN REMITTANCES

As evident in Figure 1 below, the annual flow of worldwide remittances has dramatically increased in the last decade, from approximately \$326 billion in 2006 to \$573 billion in 2016 (using data from the World Bank). In 1970, global remittances totalled just under \$2 billion. With the exception of sizable setbacks during the global financial crisis in 2008-2009 and a small decline in 2016 due to reduced remittances to developing countries, total remittances have increased almost every year since 1970 in both nominal and real terms. It is important to note that a significant share of the increase is due to better accounting (central banks are keeping better track of remittances) and the increased use of formal channels (e.g., wire transfers).

While remittances have important implications for Canada, the U.S. and Mexico, their levels, shares and direction of flows vary considerably across the three countries. As evident in Figure 2, there have been dramatic increases in remittance outflows originating in the U.S. and Canada since 1970, with the largest increases occurring since the early 2000s. The U.S. is the largest sending country of worldwide remittances in terms of sheer dollar amounts, with an outflow of more than \$70 billion estimated for 2016, while Canada has an annual outflow of approximately \$5 billion. In contrast, the U.S. receives annual inflows of approximately \$6.5 billion while Canada receives remittances of \$1.3 billion (in 2016 nominal dollars). This makes both Canada and the U.S. net senders, as they send significantly more to the rest of the world than they receive each year. On the other hand, for the past several decades Mexico has faced difficult economic and political situations relative to the U.S. and Canada. Mexican wages are considerably lower and problems associated with unemployment, crime and corruption have pushed a large population of residents abroad with a sizable share comprised of undocumented immigrants. The World Bank estimates that in recent years, Mexico has received approximately \$28 billion per year in annual remittances, but is sending very few remittances abroad (under \$1 billion per year).

It is clear that remittances are having an impact in all three countries despite the differences in absolute magnitudes. In Table 1, we provide remittance inflows and outflows relative to gross domestic product (GDP). Remittance outflows for the U.S. and Canada are approximately the same once we factor in population size and represent 0.31 per cent of GDP for Canada and

0.36 per cent for the U.S. in 2016 (even though the levels were 12 times larger in the U.S. than Canada). Remittance inflows are actually larger in Canada as a percentage of GDP, at 0.09 per cent compared to 0.04 per cent for the U.S., suggesting they are having a slightly larger impact in Canada. Not surprisingly, Mexico stands out in relative terms as remittance inflows represent 2.74 per cent of GDP. In general, the literature suggests that remittances are having a negligible impact at the macroeconomic level, even in countries that receive many of them. Still, there are important microeconomic effects for households that regularly receive remittances from abroad, as we document below.

It is also interesting to analyze which countries receive remittances from Canada. Table 2 documents the top 10 countries that receive the most remittances from Canada, using the World Bank's bilateral estimates from 2015. Migrants in Canada have sent the largest amounts to Asian economies in recent years, namely to China and India. Approximately 18 per cent (or \$4 billion annually) of remittance outflows from Canada go to China, followed by 11.5 per cent (or \$2.7 billion) to India and another nine per cent (\$2 billion) to the Philippines. As is the case with most remittance-sending countries, the primary destination countries for Canadian remittances closely align with the origin countries of Canada's migrant population. In fact, Asian countries are the largest and fastest growing sources of migration to Canada, as documented in a recent Canadian International Development Platform (2016) report. Importantly, approximately two-thirds of all remittances from Canada go to developing countries. This aligns with the goals of ODA policy and emphasizes the potential role that enhanced remittances could have in advancing the economic outcomes of those receiving funds from Canada.

At the microeconomic level, there is significant evidence to indicate that individual migrants send a sizable share of their income back to their countries of origin. Estimates range from 10 to 50 per cent of foreign-based earnings being sent back home, depending on the migrant's country of origin (Yang, 2011a). In addition, remittances are often sent via small, frequent amounts during the year. This sort of behaviour is typical as it reduces the chances that money transfers will be lost or stolen and helps smooth family members' consumption in the source country. According to Chowdhury and Das (2016a), Chinese immigrants in Canada remitted \$3,111 per year while Indian immigrants remitted \$3,679 on average in 2000-2002. Loxley et al. (2015a), find that African immigrants in Canada sent similar amounts ranging from \$2,438 per year to \$6,964 by family income category.

As for the method of transfer, it is now relatively more common for migrants to send their remittances electronically using a wire transfer payment system (through banks, credit unions or wire transfer companies) rather than using informal means. Remittance fees average about seven per cent of the funds sent of total remittances worldwide (World Bank, 2010) and estimates of elasticities suggest that the amount sent is responsive to the fee structure for money transfers. Wire transfer companies have been under attack for their predatory pricing in recent years; as a result, reforms have been instituted so that migrants receive better information at the time of the transaction. In addition, there has been an increase in the number of institutions (including banks and credit unions) that have been willing to work with migrants to open chequing and savings accounts. These companies have also faced competition with phone-based money transfer systems and the overall increase in supply of wiring service options (as seen by a shift out in the supply of transfer service providers). This has lowered the costs of remitting and increased the funds moving across borders. As of 2009-2010, Loxley et al. (2015b) found that Canadian remittances to Nigeria, Uganda, Senegal and Kenya were largely sent through Western Union (45 per cent), followed by banks (18 per cent), and that almost 15 per cent of remitters delivered their remittances themselves. Estimates of fees as of 2014 were relatively high for Western Union and Money Gram. According

to Loxley et al., (2015c), Western Union charged a fee of 12 per cent to remit C\$100 to both Africa and South Asia.

Mobile banking through phone-based transfers has the most promise in terms of accessibility and lowering costs. It already has been one of the most important trends in worldwide remittance transactions. Many individuals use cellphones to conduct financial transactions, and the transactions can occur anytime, anywhere – even in remote locations in developing countries where banks are not available. For example, M-PESA is a mobile banking system in many countries throughout Africa and Asia that allows users to make payments and transfers using their cellphones. M-PESA has been in place for over a decade and has significantly reduced the costs and barriers of transferring funds between individuals. In Asia, WeChat is becoming a popular method of sending money through the WeRemit feature. For example, Filipino workers in Hong Kong have been able to send funds through WeChat since early 2017, allowing them to avoid the fees and time spent sending money through money transfer institutions. Alipay, China’s leading third-party payment provider, offers another option for remittance transfers for those with Alipay accounts. If both parties have accounts with Alipay, transfers can be conducted without any fees.

Blockchain technology, such as bitcoin, could also potentially lower the transaction costs associated with remittances. However, there are some significant hurdles, including the lack of access to these technologies for migrant populations. In addition, there may be a lack of general understanding and trust of these systems, which do not allow for point-to-point transactions as traditional wire transfer systems do. Wu (2018) identifies other implementation challenges that are unique to the blockchain model, including the need to identify corridors of limited liquidity for fiat-bitcoin pairs, difficulty finding and maintaining banking relationships and the high costs of compliance. As of 2014, approximately 70 per cent of all remittance services conducted in Canada were using cash-to-cash and account-to-account products, demonstrating a reliance on more traditional (and more expensive) money transfer methods rather than online or mobile services (Global Partnership for Financial Inclusion, 2017a). Thus, a marketing campaign that promotes the use of more efficient cash transfer technologies could be implemented.

### III. DETERMINANTS AND IMPACT OF REMITTANCES AT THE HOUSEHOLD LEVEL

Several theories have been posited and tested regarding the reason for sending remittances both internationally and internally. On net, they suggest that there is considerable heterogeneity within and across countries and cohorts. Nonetheless, we review several of the more prominent below and discuss evidence supporting these theories.<sup>1</sup> Typically, these models involve a utility-maximizing migrant or household that chooses to send remittances when the net benefits outweigh the costs or when doing so increases expected utility. Therefore, the underlying reason for migrating is to increase one’s earnings abroad and to likely relax the budget constraint for the family members back home. The reason for doing so can be complicated by demographic, geographic, cultural, religious and economic conditions that vary between the two locations.

**Altruism:** One of the most widely cited reasons for sending funds is for altruistic reasons with the goal of remaining linked to one’s family left behind (Stark, 1991a). In altruism models, utility is not only a function of one’s consumption, but also of the spending of family members back home. The migrant’s earnings are shared and can be linked to the economic conditions of both countries. Typically, these links will decrease over time.

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<sup>1</sup> The next two sections that discuss the determinants and impacts of remittances are developed from material presented in our textbook *The Economics of Immigration* (2015).

**Consumption Smoothing:** Another popular explanation for remittances is that migrants go abroad to earn income that is not linked to the economic conditions back home and to allow for consumption smoothing. This diversification alleviates the concentration of income sources and helps to maintain a steady source of household income (Rosenzweig and Stark, 1989). Both the models of altruism and consumption smoothing suggest that there will be more funds transferred when the economy worsens in the source country. Along these lines, migrant flows are responsive to business cycles. Mandelman and Zlate (2012) suggest that remittance flows are procyclical – remittances increase when the destination country is in an expansion and fall during recessions. Thus, policy-makers in Canada should monitor macroeconomic fluctuations in migrants' primary origin countries, as they may impact remittance flows.

**Target Saving:** Some individuals migrate to accumulate funds to help pay for a specific investment or large purchase in the source country. Some researchers call this a self-interest theory as immigrants go abroad largely with specific purposes that benefit themselves directly. In this case, the migrant decides to leave typically for a period to help set aside a certain amount of financial assets that are pre-determined before departure. These can range from starting a business back home, to purchasing land, to funding a ceremonial event, to paying for health-care expenditures for those in need. In this framework, it is anticipated that the migrant will only settle temporarily in the host country and will return to the sending country once the funds have been accumulated. For Canada, assessing which group has target savings in mind as a goal would be useful in terms of guaranteeing access to savings vehicles and financial literacy in order to keep these funds safe and to help them possibly earn interest.

**Insurance:** Sending remittances may serve as a type of insurance in case the decision to migrate did not turn out as expected. The decision to migrate can be modelled with uncertainty which may include the likelihood of finding a job, and particularly for undocumented migrants, the possibility of being deported. In this case, having sent some money back home can ensure a warmer welcome upon one's return and help maintain good standing within the family. Another insurance channel for migrants is to build precautionary savings back home via remittances. Thus, remittances could be used to self-insure return migration in the case of unexpected negative outcomes in the migration experience. Amuedo-Dorantes and Pozo (2005, 2006) provide models of insurance and precautionary saving in this context. Remittances will be larger for those facing greater uncertainty and for those who are in the early stages of the migration experience. Those who have developed deep roots in the receiving country and have not suffered a negative shock upon arrival may be less inclined to send remittances over time. Thus, remittance patterns for Canadian migrants change over time, which is important to understand in policy discussions as certain migrant populations could be targeted if the goal is to facilitate remittances abroad.

**Loan Repayment:** The last channel discussed here is the use of remittances to pay back loans, particularly those for transportation from the source to the host country. Migration costs can be substantial, particularly those that involve a plane ticket and a considerable distance of travel. Often, migration entails an upfront cost and when numerous family members migrate, one migrant may save to pay the travel costs of another migrant. In the case of illegal border crossing, fees may include substantial payments to a smuggler. Or, for those looking for work in a specific field, the employment placement agency may seek upfront travel and job-finding fees. Funds may be needed to cover spells of unemployment as well. Without a source of income, a migrant may initially need to rely on friends, relatives and money lenders to ease the transition into a job abroad and repay a loan (Connell and Brown, 1995).

**Which theory is correct?** It depends. Given the complexity of reasons and the diversity of the countries that rely on remittances, it should be noted that these motivations are not mutually exclusive and there can be a combination of motives that applies to one migrant and not another. For example, Stark (1991b) suggests that a migrant may have both altruistic and target-savings reasons to remit. Furthermore, the payments may be seen as insurance if the migrant needs to return home sooner than expected. Over time, the migrant can become established in the host country and support businesses at home.

Studies of the situation in Canada also find that numerous reasons for migrating and remitting are valid. A study by Unheim and Rowlands (2012) found that remittance flows from Canada are larger if the migrant earns more, is older, has multiple jobs, has an investment in the home country and has a small family abroad. On the other hand, they find negative associations between education, housing costs and refugee status in Canada (Chowdhury and Das, 2016c).<sup>2</sup> Other factors such as marital status, gender, religion, region of source, host country and attitudes also make a difference in remitting patterns.

Importantly, remittance behaviour depends on the type of immigrant who enters each country. While Canada is known for its points-based system, there is also a family reunification category and these two classes may result in differing determinants of remittances. On the one hand, the points-based immigration policy attracts high-skilled immigrants who tend to have longer migration durations and may become less connected to their families back home over time. Meanwhile, the family-based preference system, similar to the one used in the U.S., can lead to a less-skilled migrant population compared to that in Canada.

Canadian researchers have found heterogeneity in remittances according to country of origin and immigration classification. African immigrants were found to send more funds if they were refugees, younger and part of a social organization that sponsored family members (Loxley et al., 2015d). According to Chowdhury and Das (2016d), Chinese immigrants tend to arrive independently and be categorized as economic class, while Indian immigrants are sponsored by their families and classified as family class. When examining remittances across these two groups, they find that more educated immigrants are less likely to remit in both groups, but there are positive associations between income and remittances. Family-class migrants are more likely to send money than their economic-class counterparts. Home-ownership costs in Canada reduce the likelihood of remitting for all categories of migrants.

For Chinese immigrants, gender affects remittance behaviour but marital status does not; in addition, younger Chinese immigrants are more likely to send money back home. Importantly for policy proposals, Chinese immigrants are more likely to send money if they already have savings back home. However, there are important differences for Indian immigrants, according to Chowdhury and Das (2016e). Married Indian immigrants are more likely to send money back to India. Also, having immediate and extended family in Canada boosts the chances of remitting back to India. This may occur through the influence of role models and peers who already donate funds back home through established organizations in Canada and India (Durlauf and Fafchamps, 2004).

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<sup>2</sup> Immigrants enter Canada with various categorizations, such as economic class, family class, provincial nominee, business class and refugee class.



## Implications of Remittances on Economic Outcomes

Micro-level studies in select countries such as Mexico, Ecuador and Nepal have found positive links between remittances and health-care usage and outcomes. For Mexico, Amuedo-Dorantes and Pozo (2011) find that government spending on the PROGRESA public health-care program substitutes for private spending, and remittance spending on health care is concentrated at the upper income levels. For Nepal, Chezum, Bansak and Giri (2018) do not find that government programs can adequately cover health-care needs, so remittances fill in the gaps. Specifically, the authors find a positive link between remittances and health-care spending in Nepal, particularly at the lower end of the income distribution. For Ecuador, Ponce et al., (2011) find that remittances boost health spending particularly for care on vaccinations and other preventative measures. Thus, remittances from Canada are likely having positive effects on health outcomes for recipient households.

One of the tangible benefits of remittances at the household level is financing education expenditures. However, the impacts of remittances on education spending and outcomes are not clear. If a household facing budget and credit constraints wants to invest more in education, additional income from remittances should increase its investment, as found in Adams and Cuecuecha (2010, 2013) in Ghana and Guatemala. Hines and Simpson (2017) find a positive relationship between remittances and household expenditures on education in Kenya. Alternatively, remittances may increase the consumption of food and durable goods but may not change investment decisions (such as education). For Mexico, there is no clear linkage between increased remittances and increased spending on tuition and books (Airola, 2007). Yang (2011b) notes that whether remittances are used for consumption or investment may depend on the household's income. While poor households are likely to spend more on food and durable goods, wealthier households can afford to invest in the future via physical or human capital.

Even more complicated is to calculate out the total long-run effects of remittances on educational outcomes, as it takes time for these effects to be realized. For Mexico, some studies find increased educational attainment and better grades, while others find a disincentive to attend college as labour migration to the U.S. becomes more attractive and migration of boys increases housework for girls (Borraz, 2005; Hanson and Woodruff, 2003; Kandel and Kao, 2001; McKenzie and Rapoport, 2006). For example, Acosta (2006) finds that young children are more likely to be in school in El Salvadoran households that receive remittances. In Nepal, remittances lead to a higher propensity of being enrolled in school, with the largest effects on boys (Bansak and Chezum, 2009). Mansour et al., (2011) find remittances have a positive effect on both school attendance and educational attainment in Jordan. The resulting investment in human capital will ultimately boost individual productivity, wages, happiness and well-being, although these outcomes are difficult to quantify at the household level across generations. Thus, it is plausible that remittances from Canada are having small, positive effects on educational outcomes for some recipient households.

Last, remittances can lead to financial access and increased investments in the migrant-sending countries. Evidence from Mexican household data suggests that this is the case. Using data from the Mexican Family Life Survey for 2002 and 2005, Ambrosius (2016) finds that remittances are highly correlated with savings accounts and other borrowing options in Mexico. It is likely that remittances from Canada provide better access and use of financial services in Canada.

#### IV. MACROECONOMICS IMPACTS OF REMITTANCES

In this section, we discuss the various macroeconomic impacts of remittances. We consider the effects on economic growth, development and poverty alleviation in the receiving country. We then analyze the extent to which remittances impact sending countries such as Canada and the U.S.

Given the scale of worldwide remittances, their impacts can be significant for receiving countries, particularly for small economies where they can represent a significant share of GDP. Even in larger economies, remittances have been shown to play an integral part of economic growth, development and poverty alleviation. In standard models of economic growth, total output (or GDP) can grow due to increases in labour, physical capital or productivity. Remittances are akin to capital flows, so that countries that receive them have access to more capital that may fuel economic growth. Remittances may lead to entrepreneurial pursuits, boosting productivity through information diffusion or increasing investment.

As discussed above, remittances may be used to invest in education (or human capital). An increase in schooling investment within a country will increase worker productivity over the long run, leading to more economic growth. However, remittances may be used to buffer household income, which could create a disincentive to work among other household members. If this occurs, it is plausible that an inflow of remittances may dampen economic growth, leaving the ultimate question an empirical one.

Remittances impact the macroeconomic situation of a receiving country through other channels. For example, an influx of remittances may put pressure on the local currency, causing it to appreciate in value. While a stronger currency is good in terms of attracting foreign capital, appreciation will reduce exports, causing a reduction in total output (GDP). This effect, often labelled the “Dutch disease”, is particularly harmful for countries that are large exporters. For many developing countries, however, remittances are an important source of foreign exchange and can alleviate balance-of-trade deficits by financing imports. Households that receive remittances have higher income levels and will thereby spend more money on local goods and services. Increased household consumption leads to increases in aggregate demand which puts upward pressure on prices. Studies find that remittances lead to higher inflation in Latin American countries (Ball et al., 2013). Higher incomes lead to more sales and income tax revenues which may be used to finance government spending on education, infrastructure, etc.

If remittances are taxed, they can have a direct impact on government budgets. A few countries have tried to tax remittances directly, but with little success. Other countries impose indirect taxes on remittances by artificially setting the exchange rate on them so that revenues are generated when the funds are converted to the local currency. Ethiopia, Pakistan and Venezuela have implemented this type of policy on remittance inflows.

Since remittances often lead to positive effects on total output or income, they can be a force in poverty alleviation in the receiving country. Adams and Page (2005) document sizable effects from remittances in a sample of more than 70 developing countries: they estimate that a 10 per cent increase in remittances results in a 3.5 per cent reduction in the share of people living in poverty. Remittances can also be an important source of funds to meet subsistence needs. Analysis of detailed household surveys from around the world suggests that remittances are often spent on necessities such as food, clothing, health care, transportation and housing, rather than luxury items.

Overall, the evidence on the growth effects of remittances for receiving countries is mixed. As noted above, remittances affect economic growth through various channels, making it difficult to

tease out direct effects. Results depend on the time being studied and the specific host and source country combinations as well as economic conditions (Chami et al., 2008). In a very recent study of remittances and growth, Clemens and McKenzie (2018) posit that many complicating factors make it difficult to find a positive link between remittances and economic growth. Along these lines, the recipient country's macroeconomic situation is important, especially the structures governing monetary and fiscal policy, so currency fluctuations must be carefully considered. Thus, the Canadian government should closely monitor the macroeconomic situation of recipient countries so that it can better understand the impacts of remittance flows. In some cases, remittances are being used to meet basic needs, while in other cases, they may be crowding out other forms of investment, which may be detrimental to local economies. The Canadian government could collaborate with local governments to better understand how the funds from abroad are being used.

Empirical evidence of the macroeconomic impacts of remittances on remittance-sending countries is mixed and depends on the size and level of development of the country receiving sizable migrant populations. In many cases such as Canada and the U.S., the absolute size of the outflow of remittances in levels seems significant (at \$4.7 billion and \$66.7 billion, respectively), but as a share of GDP only represents less than one-tenth of one per cent of annual GDP for each country. For less-developed countries with large migrant populations (such as Indonesia or Thailand), the outflow of remittances can have larger effects as the size of the remittances make up a significant share of GDP. Some studies have found a positive relationship between remittances and macroeconomic factors (Gapen et al., 2009; World Bank, 2006) while other studies find a negative relationship or none at all (IMF, 2005). Remittances may reduce domestic savings, hurt domestic investment and ultimately weaken the domestic capital stock significantly. Domestic consumption may also fall in these countries if the funds leaving the country are large enough to noticeably lower aggregate demand and output. In turn, the distribution of wealth in the sending country may be altered and inequality may rise because of an outflow of remittances. If migrants send over half of their income back to their home countries and live off the remaining funds, those remaining funds may be inadequate and unsustainable in the long run. If migrants intend to return home, they may also be reluctant to invest in their host country and they could create pockets of poverty in neighbourhoods where they temporarily reside.

Recent work by William Olney (2015a) suggests that remittance outflows can lower the wages of native workers. This can be seen through a reduction in demand for labour in non-traded domestic goods and services markets. If the remittance flows result in lower demand for certain locally produced goods and services, demand for labour to produce these items may fall. Using German data, Olney (2015b) finds that a one per cent increase in remittances lowers native wages by 0.06 per cent. Similar studies could be conducted to see if these effects are happening in Asian countries that are large recipients of Canadian remittances.

For large developed countries with significant levels of remittance outflows, most of the effects are more likely to be indirect. For example, if current migrant populations are sending large amounts of remittances home, at least some of that money is being used to finance the migration of other household members. In the U.S. and Canada, such chain migration is also based on network effects that lower the cost of migration through knowledge of labour, housing, education and other markets which can ease the transition and assimilation into the migrant-receiving country of new migrants. Whether these effects – funding for new migrants and chain migration – are net costs or benefits to the host country depends on the characteristics of the migrant. This channel is particularly relevant in the U.S. where immigration policy is more heavily focused on family-based preferences so that migrants can sponsor the migration of other family members over time. In general, however, very

little is known about the impact of remittance outflows for the migrant-receiving and remittance-sending country. This is an area that should garner more researchers' attention.

## V. POLICY AND SUMMARY

As the above discussion suggests, having a particular framework with which to assess the flow of funds from a migrant to a household in the source country facilitates a better understanding of the impact of the transfers on economic outcomes such as consumption, investment and growth, and can help inform government policy in both the sending and receiving countries.

Overall, the literature does not indicate that remittances have large effects on the macroeconomic situation of receiving or sending countries. Those that receive remittances appear to benefit and those that send them do not appear to be sizably adversely affected. As a result, most advanced countries with considerable remittance outflows remain relatively neutral when it comes to considering policy that may impact remittances. That is, governments do not usually discourage remittances but they also do not set policies to encourage them. However, based on studies using micro-level data and recent initiatives by the Canadian government, it seems as if there is some interest in promoting remittances as a means of development assistance. These efforts should be applauded and if deemed successful, should be considered by other advanced nations. In addition, the private sector could provide assistance through financial literacy outreach and the introduction of less costly transfer services. Our analysis indicates that more worldwide remittances will lead to improved living conditions for recipient households. They will also likely lead to better education and health outcomes which will in turn have positive long-term effects on the global economy.

We offer the following policy recommendations:

*Reduce remittance fees and increase oversight of wire transfer services.*

Support: International policy-makers have suggested this as a goal and Canada has already made progress towards this end. As of 2011, the G20 leaders committed to reducing the average costs of remittances from nine per cent to five per cent and recommitted to these goals in 2016. Canada has seen fees fall from 9.3 per cent (in 2015) to 7.8 per cent (in 2017) (Global Partnership for Financial Inclusion, 2017b). To further move toward this outcome, the Canadian government is developing a website with price comparisons of transaction fees for transferring funds. The government aims to improve market competitiveness and to better understand the needs of remittance providers. Part of this approach also involves setting caps on total remittance charges, including both transaction fees and the exchange rate premium. If the fees are low enough, migrants may not only be able to remit more but may be able to switch from informal to safer formal methods of transfers. Banks and other financial institutions could partner with the government in this initiative to provide low-cost transfer options coupled with financial literacy outreach efforts. Monitoring the new technological advances in wire transfer services should also ease fears of possible security breaches and account fraud which have plagued online merchants and have raised doubts about the safety of online transactions. In terms of reaching certain groups of immigrants in Canada, research has suggested that African immigrants in Canada may be the most reliant on Western Union and other expensive wiring services, so they may have the most to gain, despite their relatively high use of M-PESA.

*Make it easier for migrants to travel between their source and host countries; support migrants in their host countries; mobilize migrants to support their home development.*

Support: Often, barriers to migration affect the flow of funds across countries. Some migrants find it difficult to leave their source countries because of prohibitively high travel expenses and the need to hire a placement agency and smuggler. Others feel they cannot return easily due to visa restrictions and lack of support upon their return. Border enforcement or confusion over proper documentation needed for travel and work purposes may deter migrants from crossing and they may be unwilling to travel home if they perceive difficulty in re-entering the host country. Differentials in ease of travel and visas needed for economic, refugee and family-class immigrants should be taken into consideration as potential barriers that could reduce the sending of remittances for investment purposes.

*Facilitate the investment of remittance funds toward productive uses.*

Support: Some developing countries (e.g., Mexico's 3x1 program) have experimented with programs that match remittances to additional funds to support local development and infrastructure projects. In a similar fashion, Canada and the U.S. could encourage foreign countries to maximize the effects of their remittances by also providing matched incentives to those willing to use funds for investment rather than consumption purchases. Special bank accounts and tax relief could also attract funds abroad. These incentives may be of particular importance for Chinese immigrants who are more likely to remit if they have investments in their home country.

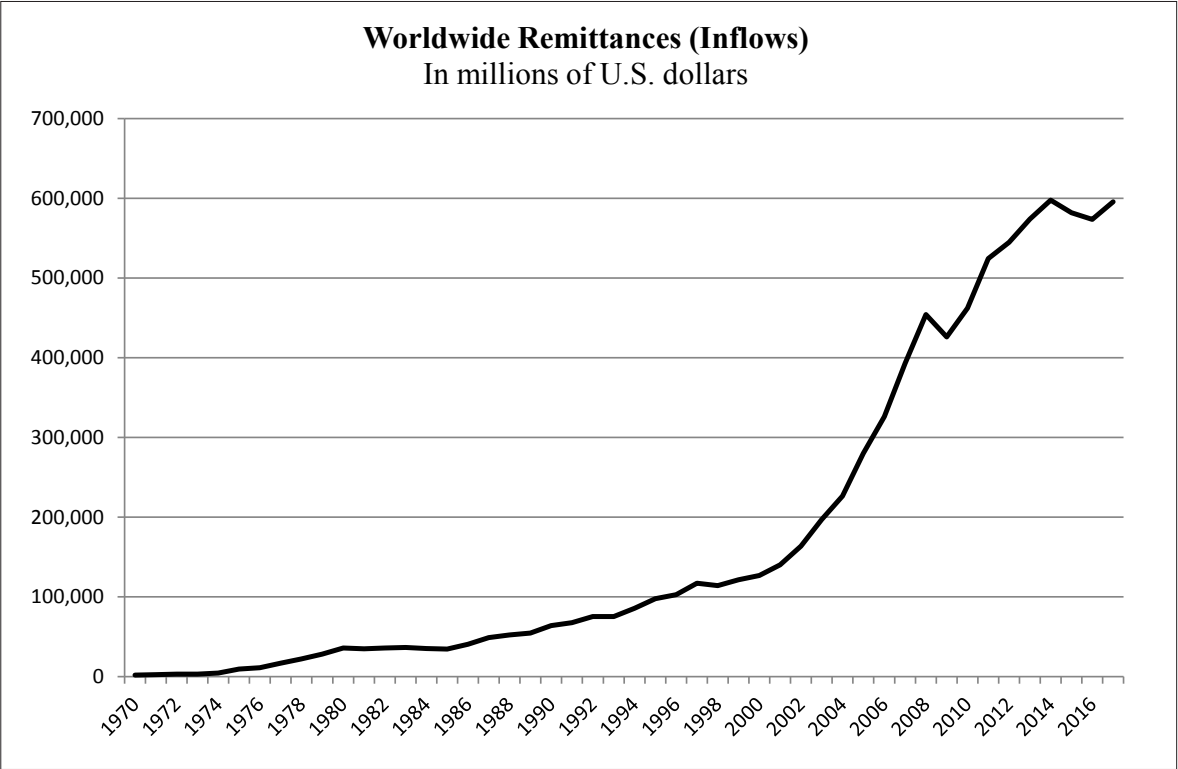
*Help local policy-makers establish the need for financial services in underserved areas and understand the relationship between migration and remittances.*

Support: Often, migrant communities appear in locations that are not accustomed to supporting their needs and do not understand the importance of remittances and wiring services. Local governments should work with banks and other financial institutions to make sure remittance services are provided. In particular, India's Ministry of Overseas Indian Affairs, which merged with that country's Ministry of External Affairs in January 2016, could work to encourage the Indian diaspora and family-class immigrants in Canada to boost transmission of funds to those back in India, as they have a higher tendency to remit than economic or business-class migrants (Chowdhury and Das, 2016f). Providing estimates on the size of potential markets for remittance services can be useful to migrants, their local communities and the financial institutions.

*Recognize the diversity in influences on the decision to remit.*

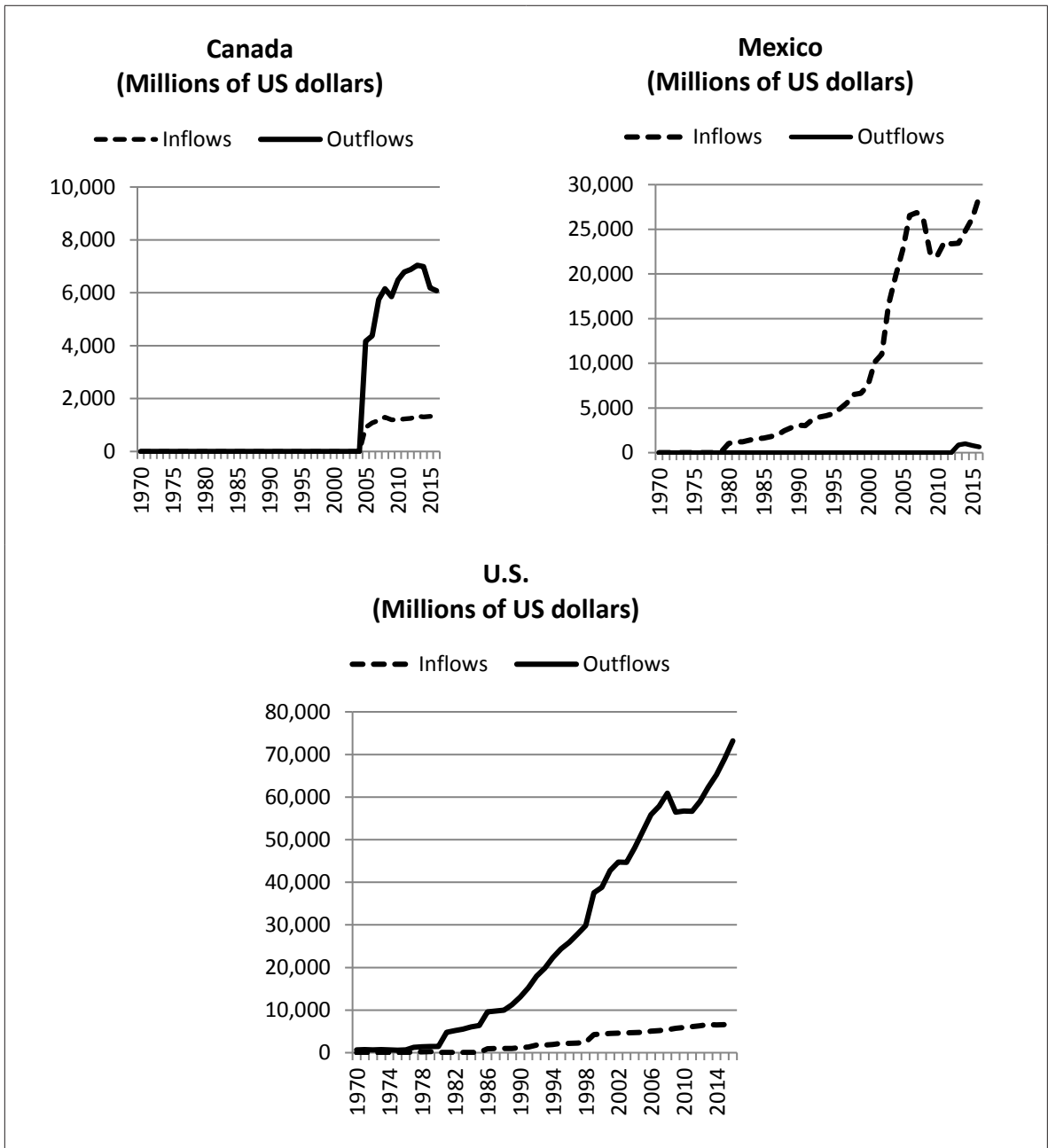
Support: Studies show considerable differences in the propensity to remit based on immigration class, country of origin, cultural and religious differences, traditions and opportunities in the home country. Additional surveys of immigrants in Canada and their source countries could help streamline all of the above levers to enhance productive uses of remitted funds.

**FIGURE 1** WORLD REMITTANCES



Source: World Bank Migration and Remittances Data. Accessed Jan. 10, 2018.  
<http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/ffimigration-remittances-data>

**FIGURE 2 REMITTANCE INFLOWS AND OUTFLOWS: CANADA, MEXICO AND THE U.S., 1970-2016**



Source: Same as Figure 1.

**TABLE 1 REMITTANCES AS A PERCENTAGE OF GDP FOR CANADA, MEXICO AND THE U.S., 2016**

Country	Remittance outflows (in millions of 2016 US\$)	GDP (in millions of 2016 US\$)	Remittances as a share of GDP (%)
Canada	4,739	1,529,760	0.31%
Mexico	654	1,046,923	0.06%
United States	66,649	18,624,475	0.36%

Country	Remittance inflows (in millions of 2016 US\$)	GDP (in millions of 2016 US\$)	Remittances as a share of GDP (%)
Canada	1,343	1,529,760	0.09%
Mexico	28,670	1,046,923	2.74%
United States	6,547	18,624,475	0.04%

Source: Same as Figure 1; GDP estimates from World Bank World Development Indicators.

**TABLE 2 10 LARGEST DESTINATION COUNTRIES OF CANADIAN REMITTANCES**

Country	Millions of US\$	% of total
China	4,179	17.8%
India	2,706	11.5%
Philippines	2,075	8.9%
France	1,183	5.0%
Italy	1,112	4.7%
Vietnam	923	3.9%
Lebanon	769	3.3%
Germany	726	3.1%
U.K.	719	3.1%
United States	709	3.0%
<b>Total</b>	<b>23,438</b>	

Source: Bilateral Remittances Matrices, World Bank. Accessed Jan. 10, 2018.  
<http://pubdocs.worldbank.org/en/877181460572709142/bilateral-remittance-matrix-2015-2.xlsx>



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#### ISSN

ISSN 2560-8312 The School of Public Policy Publications (Print)  
ISSN 2560-8320 The School of Public Policy Publications (Online)

#### DATE OF ISSUE

March 2019

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